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UNCLAS HARARE 002074

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

[E](#). O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [PGOV](#) [ZI](#)

SUBJECT: Inflation: 456 Percent and Rising

[1](#)1. Summary: Zimbabwe's year-on inflation rate has risen to 456 percent. Within months, it could spiral to hyper-levels. End summary.

[1](#)2. The recent increase takes into account the zimdollar's hefty pre-September devaluation, when it fell from Z\$2350 to Z\$5600:US\$1 in just two months. Zimbabwe is increasingly import-dependent, even for basic foodstuffs. The inflation/devaluation interplay continues to chip away at the buying-power of most Zimbabweans.

[1](#)3. Comment: For numerous reasons, it is inevitable that inflation will head up further. a) Since September, the GOZ has accelerated its printing of money (through larger denominations). b) Even with lending rates as high as 130 percent, real rates are heavily negative and fuel an inflationary demand for credit and speculative spending. c) Zimbabwe's trade balance is worsening, mostly due to export-unfriendly policies. d) The GOZ is threatening to unveil new price controls, fostering an expectation of product shortages and a run on certain items. In short, the private sector is bracing for a populist mid-November budget speech, where the GOZ may reintroduce lower lending rates, higher indirect corporate taxes and new price controls.

Sullivan